

LISBON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Lisbon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Scott Morningstar	President	2006
Jeff Bohr	Vice President	2008
Andrew Sullivan	Board Member	2007
Doren Montgomery	Board Member	2007
Eric Krob	Board Member	2008
Board of Education (After September 2006 Election)		
Jeff Bohr	President	2008
Andrew Sullivan	Vice President	2007
Doren Montgomery	Board Member	2007
Eric Krob	Board Member	2008
David Prasil	Board Member	2009
School Officials		
Vincent Smith	Superintendent	2007
Gene Lawson	District Secretary (Resigned)	2007
Laurie Maher	District Secretary (Appointed)	2007
Belin Lamson McCormick Zumbach Flynn	Attorney	2007

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Lisbon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lisbon Community School District, Lisbon Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lisbon Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2008 on our consideration of the Lisbon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lisbon Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lisbon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,894,076 in fiscal 2006 to \$5,008,047 in fiscal 2007, while General Fund expenditures increased from \$4,765,811 in fiscal 2006 to \$5,085,587 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$303,036 in fiscal 2006 to a balance of \$225,496 in fiscal 2007.
- The increase in General Fund revenues was attributable to an increase in local tax and tuition revenues in fiscal 2007. The increase in expenditures can be attributed to the regular and special education functional areas.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lisbon Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lisbon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Lisbon Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Lisbon Community School District Annual Financial Report

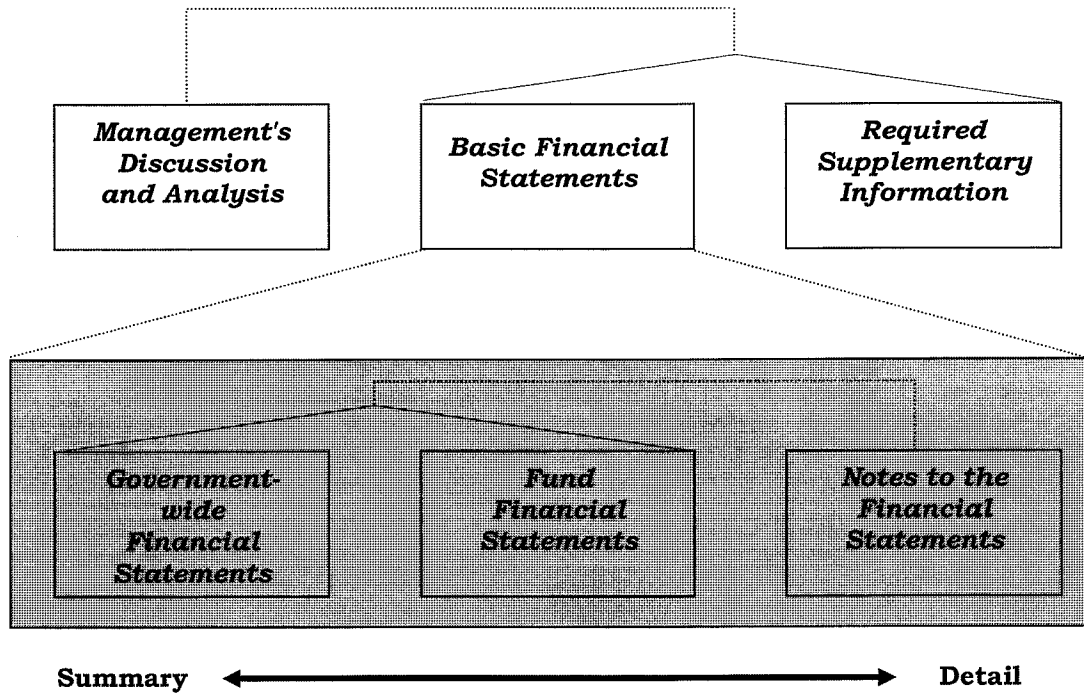


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into three categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.
- *Component unit:* This includes the activities of the Lisbon Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Day Care Fund. Currently, the District has one Internal Service Fund which contains revenues and expenditures related to employee's dental insurance program.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. The District's Agency Fund falls into this category.

- Agency Fund - These are funds for which the District administers and accounts for the District's band trip and other club activities.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,451,418	3,906,125	102,597	35,984	6,252,509	3,942,109	58.61%
Capital assets	6,149,912	6,338,453	31,162	34,685	6,181,074	6,373,138	-3.01%
Total assets	10,601,330	10,244,578	133,759	70,669	10,735,089	10,315,247	4.07%
Long-term obligations	2,564,970	2,693,870	0	0	2,564,970	2,693,870	-4.78%
Other liabilities	3,627,819	3,243,105	38,518	50,351	3,666,337	3,293,456	11.32%
Total liabilities	6,192,789	5,936,975	38,518	50,351	6,231,307	5,987,326	4.07%
Net assets:							
Invested in capital assets, net of related debt	3,689,942	3,749,583	31,162	34,685	3,721,104	3,784,268	-1.67%
Restricted	358,261	302,835	0	0	358,261	302,835	18.30%
Unrestricted	360,338	255,185	64,079	(14,367)	424,417	240,818	76.24%
Total net assets	\$ 4,408,541	4,307,603	95,241	20,318	4,503,782	4,327,921	4.06%

The District's combined net assets increased by \$175,861, or 4.06% over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$55,426, or 18.30% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$183,599, or 76.24%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 445,225	449,887	634,708	586,628	1,079,933	1,036,515	4.19%
Operating grants and contributions and restricted interest	514,924	482,532	90,234	69,575	605,158	552,107	9.61%
General revenues:							
Property tax	2,146,656	1,858,554	0	0	2,146,656	1,858,554	15.50%
Local option sales and service tax	74,365	69,064	0	0	74,365	69,064	7.68%
Unrestricted state grants	2,516,269	2,533,937	0	0	2,516,269	2,533,937	-0.70%
Other	118,205	77,017	365	221	118,570	77,238	53.51%
Total revenues	5,815,644	5,470,991	725,307	656,424	6,540,951	6,127,415	6.75%
Program expenses:							
Governmental activities:							
Instructional	3,508,206	3,181,765	0	0	3,508,206	3,181,765	10.26%
Support services	1,629,255	1,731,973	0	0	1,629,255	1,731,973	-5.93%
Non-instructional programs	0	0	650,384	666,813	650,384	666,813	-2.46%
Other expenses	577,245	520,231	0	0	577,245	520,231	10.96%
Total expenses	5,714,706	5,433,969	650,384	666,813	6,365,090	6,100,782	4.33%
Change in net assets	100,938	37,022	74,923	(10,389)	175,861	26,633	560.31%
Net assets beginning of year	4,307,603	4,270,581	20,318	30,707	4,327,921	4,301,288	0.62%
Net assets end of year	\$ 4,408,541	4,307,603	95,241	20,318	4,503,782	4,327,921	4.06%

In fiscal 2007, property tax and unrestricted state grants account for 80.18% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.95% of the revenue from business type activities.

The District's total revenues were approximately \$6.54 million of which \$5.81 million was for governmental activities and less than \$0.73 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.75% increase in revenues and a 4.33% increase in expenses. Total charges for services increased \$43,418 and unrestricted state grants increased \$356,437 to fund increases in expenditures. The increase in expenses was related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$5,815,644 and expenses were \$5,714,706.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,508,206	3,181,765	10.26%	2,740,410	2,450,154	11.85%
Support services	1,629,255	1,731,973	-5.93%	1,628,897	1,717,201	-5.14%
Other expenses	577,245	520,231	10.96%	385,250	334,195	15.28%
Totals	<u>\$ 5,714,706</u>	<u>5,433,969</u>	<u>5.17%</u>	<u>4,754,557</u>	<u>4,501,550</u>	<u>5.62%</u>

- The cost financed by users of the District's programs was \$445,225.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$514,924.
- The net cost of governmental activities was financed with \$2,146,656 in local tax, \$74,365 in local option sales and service tax, \$2,516,269 in unrestricted state grants, and \$85,091 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$725,307 and expenses were \$650,384. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Lisbon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$632,485 lower than last year's ending fund balances of \$682,507.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Increases in state grants and tuition revenues caused increases in revenues. The increases in revenues were not enough to offset the increase in expenditures resulting in a General Fund balance decrease of \$77,540.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$84,182 to \$34,924 in fiscal 2007 due to increased expenditures when compared to fiscal 2006.
- The Capital Projects fund balance increased from \$153,812 in fiscal 2006 to \$235,602 in fiscal 2007 because the District had no expenditures from this fund.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$57,611 at June 30, 2006 to \$63,313 at June 30, 2007. This represents an increase of approximately 9.9%. The increase in net assets is a combination of increased federal revenues and decreased expenditures during the fiscal year.

The School Daycare Fund (LECCEC) net assets increased from a deficit \$37,293 at June 30, 2006 to \$31,928 at June 30, 2007. This fund also increased due to a combination of increased revenues and decreased expenditures during the fiscal year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$185,913 more than budgeted revenues, a variance of 3.02%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. However, during the year ended June 30, 2007, the District exceeded budgeted amounts in the instruction and support services functions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$6,181,074, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.5% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$221,523.

The original cost of the District's capital assets was \$9,116,745. Governmental funds account for \$9,021,406 with the remainder of \$95,339 in the Proprietary, School Nutrition Fund.

Other than construction in progress, the largest change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$35,727 at June 30, 2006 compared to \$55,506 at June 30, 2007. The increase is attributable to the electric sign in the front of the school being completed and being removed from previous year's construction in progress.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 150,000	150,000	0	0	150,000	150,000	0.0%
Construction in progress	0	12,495	0	0	0	12,495	-100.0%
Buildings	5,835,645	5,989,329	0	0	5,835,645	5,989,329	-2.6%
Improvements other than buildings	55,506	35,727	0	0	55,506	35,727	55.4%
Machinery and equipment	108,761	150,902	31,162	34,685	139,923	150,902	-7.3%
Total	\$ 6,149,912	6,338,453	31,162	34,685	6,181,074	6,338,453	-2.5%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$2,564,970 in general obligation bonds, note payable and early retirement. This represents a decrease of approximately 4.8% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	\$ 2,435,000	2,540,000	-4.1%
Note payable	24,970	48,870	-48.9%
Early retirement	105,000	105,000	0.0%
Total	<u>\$ 2,564,970</u>	<u>2,693,870</u>	<u>-4.8%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The increase of 28.5 resident students on line one of the District's 2006 certified enrollment provided a boost to General Fund revenues. If the District can maintain or increase enrollment or decrease open enrollment out over the following years, this will definitely help the District to maintain stability.
- The LECCEC daycare facility is a definite asset to drawing more students to the District and increasing revenues. With its continued growth, enrollment will increase which in turn will help to maintain the health of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurie Maher, Business Manager/Board Secretary, Lisbon Community School District, 235 West School Street, Lisbon, Iowa, 52253-0839.

BASIC FINANCIAL STATEMENTS

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government			Component Unit
	Govern- mental Activities	Business- type Activities	Total	Lisbon Community School District Foundation
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 1,189,118	0	1,189,118	0
Other	1,164,296	87,272	1,251,568	246,491
Receivables:				
Property tax:				
Delinquent	20,049	0	20,049	0
Succeeding year	1,769,498	0	1,769,498	0
Income surtax	207,697	0	207,697	0
Accounts	2,844	4,497	7,341	0
Accrued ISCAP interest(Note 5)	5,306	0	5,306	0
Due from other governments	92,610	0	92,610	0
Inventories	0	10,828	10,828	0
Capital assets, net of accumulated depreciation(Note 6)	6,149,912	31,162	6,181,074	0
TOTAL ASSETS	10,601,330	133,759	10,735,089	246,491
LIABILITIES				
Accounts payable	218,164	12,081	230,245	0
Salaries and benefits payable	422,933	23,081	446,014	0
ISCAP warrants payable(Note 5)	1,191,000	0	1,191,000	0
ISCAP accrued interest payable(Note 5)	303	0	303	0
ISCAP unamortized premium	8,837	0	8,837	0
Interest payable	17,084	0	17,084	0
Deferred revenue:				
Succeeding year property tax	1,769,498	0	1,769,498	0
Other	0	3,356	3,356	0
Long-term liabilities(Note 7):				
Portion due within one year:				
General obligation bonds payable	110,000	0	110,000	0
Note payable	24,970	0	24,970	0
Early retirement payable	37,500	0	37,500	0
Portion due after one year:				
General obligation bonds payable	2,325,000	0	2,325,000	0
Early retirement payable	67,500	0	67,500	0
TOTAL LIABILITIES	6,192,789	38,518	6,231,307	0
NET ASSETS				
Invested in capital assets, net of related debt	3,689,942	31,162	3,721,104	0
Restricted for:				
Scholarships	0	0	0	73,528
Teacher mentoring	1,015	0	0	0
Salary improvement program	1,374	0	1,374	0
Market factor	4,215	0	4,215	0
Talented and gifted	33,382	0	33,382	0
Physical plant and equipment levy	34,924	0	34,924	0
Capital projects	235,602	0	235,602	0
Debt service	3,141	0	3,141	0
Other special revenue purposes	44,608	0	44,608	0
Unrestricted	360,338	64,079	425,432	172,963
TOTAL NET ASSETS	\$ 4,408,541	95,241	4,503,782	246,491

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Lisbon Community School District Foundation
	Expenses	Charges for Services	Contributions and Restricted Interest	Primary Government		Total	
				Govern- mental Activities	Business- Type Activities		
Governmental activities:							
Instruction:							
Regular instruction	\$ 2,567,966	280,547	290,060	(1,997,359)	0	(1,997,359)	0
Special instruction	673,032	86,260	30,231	(556,541)	0	(556,541)	0
Other instruction	267,208	78,418	2,280	(186,510)	0	(186,510)	0
	<u>3,508,206</u>	<u>445,225</u>	<u>322,571</u>	<u>(2,740,410)</u>	<u>0</u>	<u>(2,740,410)</u>	<u>0</u>
Support services:							
Student services	93,398	0	0	(93,398)	0	(93,398)	0
Instructional staff services	186,819	0	0	(186,819)	0	(186,819)	0
Administration services	599,422	0	0	(599,422)	0	(599,422)	0
Operation and maintenance of plant services	582,770	0	0	(582,770)	0	(582,770)	0
Transportation services	166,846	0	358	(166,488)	0	(166,488)	0
	<u>1,629,255</u>	<u>0</u>	<u>358</u>	<u>(1,628,897)</u>	<u>0</u>	<u>(1,628,897)</u>	<u>0</u>
Other expenditures:							
Facilities acquisitions	110,683	0	0	(110,683)	0	(110,683)	0
Long-term debt interest and fiscal charges	98,708	0	0	(98,708)	0	(98,708)	0
AEA flowthrough	191,995	0	191,995	0	0	0	0
Depreciation(unallocated)*	175,859	0	0	(175,859)	0	(175,859)	0
	<u>577,245</u>	<u>0</u>	<u>191,995</u>	<u>(385,250)</u>	<u>0</u>	<u>(385,250)</u>	<u>0</u>
Total governmental activities	5,714,706	445,225	514,924	(4,754,557)	0	(4,754,557)	0
Business-Type activities:							
Non-instructional programs:							
Nutrition services	294,616	224,545	75,597	0	5,526	5,526	0
Daycare	355,768	410,163	14,637	0	69,032	69,032	0
Total business-type activities	<u>650,384</u>	<u>634,708</u>	<u>90,234</u>	<u>0</u>	<u>74,558</u>	<u>74,558</u>	<u>0</u>
Total primary government	<u>\$ 6,365,090</u>	<u>1,079,933</u>	<u>605,158</u>	<u>(4,754,557)</u>	<u>74,558</u>	<u>(4,679,999)</u>	<u>0</u>
Total component unit	<u>\$ 17,041</u>	<u>0</u>	<u>19,425</u>				<u>2,384</u>
General Revenues:							
Local tax for:							
General purposes				\$ 1,838,461	0	1,838,461	0
Debt service				206,067	0	206,067	0
Capital outlay				102,128	0	102,128	0
Local option sales and services				74,365	0	74,365	0
Unrestricted state grants				2,516,269	0	2,516,269	0
Unrestricted investment earnings				85,091	365	85,456	23,660
Unrealized gain on investments				0	0	0	10,492
Other				33,114	0	33,114	284
Total general revenues				<u>4,855,495</u>	<u>365</u>	<u>4,855,860</u>	<u>34,436</u>
Changes in net assets				100,938	74,923	175,861	36,820
Net assets beginning of year				<u>4,307,603</u>	<u>20,318</u>	<u>4,327,921</u>	<u>209,671</u>
Net assets end of year				<u>\$ 4,408,541</u>	<u>95,241</u>	<u>4,503,782</u>	<u>246,491</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,189,118	0	1,189,118
Other	783,176	380,619	1,163,795
Receivables:			
Property tax			
Delinquent	15,247	4,802	20,049
Succeeding year	1,329,322	440,176	1,769,498
Income surtax	207,697	0	207,697
Accounts	1,563	1,281	2,844
Accrued ISCAP interest(Note 5)	5,306	0	5,306
Due from other funds	0	6,430	6,430
Due from other governments	65,217	27,393	92,610
TOTAL ASSETS	\$ 3,596,646	860,701	4,457,347
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 204,628	13,536	218,164
Salaries and benefits payable	422,933	0	422,933
ISCAP warrants payable(Note 5)	1,191,000	0	1,191,000
ISCAP accrued interest payable(Note 5)	303	0	303
ISCAP unamortized premium	8,837	0	8,837
Due to other funds	6,430	0	6,430
Deferred revenue:			
Succeeding year property tax	1,329,322	440,176	1,769,498
Income surtax	207,697	0	207,697
Total liabilities	3,371,150	453,712	3,824,862
Fund balances:			
Reserved for:			
Teacher mentoring	1,015	0	1,015
Salary improvement program	1,374	0	1,374
Market factor	4,215	0	4,215
Talented and gifted	33,382	0	33,382
Debt service	0	3,141	3,141
Unreserved	185,510	403,848	589,358
Total fund balances	225,496	406,989	632,485
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,596,646	860,701	4,457,347

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 632,485
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,149,912
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	501
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	207,697
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(17,084)
Long-term liabilities, including bonds payable, early retirement and note payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(2,564,970)
Net assets of governmental activities (page 13)	\$ 4,408,541

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,530,637	482,687	2,013,324
Tuition	330,755	0	330,755
Other	122,157	117,213	239,370
State sources	2,935,605	0	2,935,605
Federal sources	88,893	0	88,893
Total revenues	5,008,047	599,900	5,607,947
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,535,944	15,000	2,550,944
Special instruction	673,032	0	673,032
Other instruction	160,450	106,758	267,208
	3,369,426	121,758	3,491,184
Support services:			
Student services	93,398	0	93,398
Instructional staff services	186,819	0	186,819
Administration services	555,641	43,781	599,422
Operation and maintenance of plant services	550,096	28,859	578,955
Transportation services	138,212	6,046	144,258
	1,524,166	78,686	1,602,852
Other expenditures:			
Facilities acquisitions	0	140,142	140,142
Long-term debt:			
Principal	0	128,900	128,900
Interest and fiscal charges	0	102,896	102,896
AEA flowthrough	191,995	0	191,995
	191,995	371,938	563,933
Total expenditures	5,085,587	572,382	5,657,969
Excess (deficiency) of revenues over (under) expenditures	(77,540)	27,518	(50,022)
Other financing sources (uses):			
Transfers in	0	26,093	26,093
Transfers out	0	(26,093)	(26,093)
Total other financing sources (uses)	0	0	0
Net change in fund balances	(77,540)	27,518	(50,022)
Fund balance beginning of year	303,036	379,471	682,507
Fund balance end of year	\$ 225,496	406,989	632,485

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (50,022)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital expenditures in the current year, as follows:

Capital expenditures	\$ 29,459	
Depreciation expense	<u>(218,000)</u>	(188,541)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (1,284)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 128,900

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,188

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 207,697

Changes in net assets of governmental activities (page 14) \$ 100,938

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-Type Activities Enterprise: Fund			Governmental Activities: Internal Service Fund
	School Nutrition	LECCEC (DayCare)	Total Enterprise	
ASSETS				
Cash and pooled investments	\$ 35,990	51,282	87,272	4,501
Accounts receivable	3,331	1,166	4,497	0
Inventories	6,782	4,046	10,828	0
Capital assets, net of accumulated depreciation(Note 6)	31,162	0	31,162	0
TOTAL ASSETS	77,265	56,494	133,759	4,501
LIABILITIES				
Accounts payable	5,173	6,908	12,081	0
Salaries and benefits payable	5,423	17,658	23,081	4,000
Unearned revenue	3,356	0	3,356	0
TOTAL LIABILITIES	13,952	24,566	38,518	4,000
NET ASSETS				
Investment in capital assets	31,162	0	31,162	0
Unrestricted	32,151	31,928	64,079	501
TOTAL NET ASSETS	\$ 63,313	31,928	95,241	501

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	LECCEC (DayCare)	Total Enterprise	
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 224,545	410,163	634,708	20,247
OPERATING EXPENSES:				
Non-instructional programs:				
Salaries	61,894	226,712	288,606	0
Benefits	17,952	72,939	90,891	21,531
Services	1,009	373	1,382	0
Supplies	210,238	55,744	265,982	0
Depreciation	3,523	0	3,523	0
TOTAL OPERATING EXPENSES	294,616	355,768	650,384	21,531
OPERATING INCOME (LOSS)	(70,071)	54,395	(15,676)	(1,284)
NON-OPERATING REVENUES:				
State sources	2,973	0	2,973	0
Federal sources	72,624	14,637	87,261	0
Interest on investments	176	189	365	0
TOTAL NON-OPERATING REVENUES	75,773	14,826	90,599	0
Net income(loss)	5,702	69,221	74,923	(1,284)
Net assets beginning of year	57,611	(37,293)	20,318	1,785
Net assets end of year	\$ 63,313	31,928	95,241	501

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities:			
	Enterprise Fund			Governmental Activities:
	School Nutrition	LECCEC (DayCare)	Total Enterprise	Internal Service Fund
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 223,199	0	223,199	0
Cash received from miscellaneous	1,813	410,921	412,734	20,247
Cash payments to employees for services	(78,912)	(301,271)	(380,183)	(22,531)
Cash payments to suppliers for goods or services	(187,661)	(55,674)	(243,335)	0
Net cash provided by(used in) operating activities	(41,561)	53,976	12,415	(2,284)
Cash flows from non-capital financing activities:				
State grants received	2,973	0	2,973	0
Federal grants received	60,000	14,637	74,637	0
Net cash provided by non-capital financing activities	62,973	14,637	77,610	0
Cash flows from investing activities:				
Interest on investments	176	189	365	0
Net increase(decrease) in cash and cash equivalents	21,588	68,802	90,390	(2,284)
Cash and cash equivalents at beginning of year	14,402	(17,520)	(3,118)	6,785
Cash and cash equivalents at end of year	\$ 35,990	51,282	87,272	4,501
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (70,071)	54,395	(15,676)	(1,284)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	12,624	0	12,624	0
Depreciation	3,523	0	3,523	0
Decrease(Increase) in inventories	6,844	(1,205)	5,639	0
Decrease(Increase) in accounts receivable	(140)	758	618	0
Increase in accounts payable	4,118	1,648	5,766	0
Increase(Decrease) in salaries and benefits payable	934	(1,620)	(686)	(1,000)
Increase in unearned revenue	607	0	607	0
Net cash provided by(used in) operating activities	\$ (41,561)	53,976	12,415	(2,284)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 35,990	51,282	87,272	4,501

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$12,624.

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 40,242
TOTAL ASSETS	<u>\$ 40,242</u>
LIABILITIES	
Accounts payable	4,699
Due to other groups	<u>35,543</u>
TOTAL LIABILITIES	<u>\$ 40,242</u>

SEE NOTES TO FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
COMPONENT UNIT
JUNE 30, 2007

	<u>Lisbon Community School District Foundation</u>
Assets	
Cash	\$ 28,511
Certificates of deposit	6,568
Investments	<u>211,412</u>
Total Assets	<u>\$ 246,491</u>
Total Liabilities	<u>0</u>
Net Assets	
Restricted net assets	73,528
Unrestricted net assets	<u>172,963</u>
Total Net Assets	<u>246,491</u>
Total Liabilities and Net Assets	<u>\$ 246,491</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS - CASH BASIS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2007

	Lisbon Community School District Foundation		
	Unrestricted	Restricted	Total
	Funds	Funds	
Support and Revenue:			
Interest	\$ 107	284	391
Donations	19,425	0	19,425
Gain or loss on investments	23,553	0	23,553
Unrealized gain or loss on investments	0	10,492	10,492
Total support and revenue	43,085	10,776	53,861
Expenses:			
Postage	951	0	951
Scholarships	15,840	0	15,840
Dues	250	0	250
Total expenses	17,041	0	17,041
Changes in net assets before other financing sources	26,044	10,776	36,820
Other financing sources and uses net	(271)	271	0
Excess of support and revenue over expenses	25,773	11,047	36,820
Net assets beginning of year	147,190	62,481	209,671
Net assets end of year	\$ 172,963	73,528	246,491

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LISBON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Lisbon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Lisbon, Iowa, and the predominate agricultural territory in Linn, Cedar, Jones, and Johnson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lisbon Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

These financial statements present the Lisbon Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The Lisbon Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The trustees are elected for 3-year terms from nominations submitted by the Board of Education of the District. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental fund in these financial statements.

Jointly Governed Organizations

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some

other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following major proprietary fund:

The Enterprise, Daycare Fund is used to account for child care services provided by the District.

The District's also reports two non-major proprietary funds:

The School Nutrition Fund is used to account for the food service operations of the District.

The Internal Service Fund is used to account for the self-funded employee dental insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal

and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Years of Useful Life</u>
Buildings	10-50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the instruction and support services functions exceeded budgeted amounts.

(2) Cash and Pooled Investments

The District's deposits in bank at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the district had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 802

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Physical Plant and Equipment Levy	General	\$ 1,500
Capital Projects	General	4,930
Total		\$ 6,430

(4) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 26,093

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	4,951	0	0
2007-08A	6/27/07	6/27/08	1,189,118	355	1,191,000	303
			<u>\$ 1,189,118</u>	<u>5,306</u>	<u>1,191,000</u>	<u>303</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	250,000	250,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 150,000	0	0	150,000
Construction in progress	12,495	12,495	24,990	0
Total capital assets not being depreciated	162,495	12,495	24,990	150,000
Capital assets being depreciated:				
Buildings	8,129,217	16,964	0	8,146,181
Improvements other than buildings	54,326	24,990	0	79,316
Machinery and equipment	645,909	0	0	645,909
Total capital assets being depreciated	8,829,452	41,954	0	8,871,406
Less accumulated depreciation for:				
Buildings	2,139,888	170,648	0	2,310,536
Improvements other than buildings	18,599	5,211	0	23,810
Machinery and equipment	495,007	42,141	0	537,148
Total accumulated depreciation	2,653,494	218,000	0	2,871,494
Total capital assets being depreciated, net	6,175,958	(176,046)	0	5,999,912
Governmental activities capital assets, net	\$ 6,338,453	(163,551)	24,990	6,149,912

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 95,339	0	0	95,339
Less accumulated depreciation	60,654	3,523	0	64,177
Business-type activities capital assets, net	\$ 34,685	(3,523)	0	31,162

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 15,738
Operation and maintenance of plant	3,815
Transportation	22,588
	42,141
Unallocated depreciation	175,859
Total governmental activities depreciation expense	\$ 218,000
Business-type activities:	
Food services	\$ 3,523

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,540,000	0	105,000	2,435,000	110,000
Note Payable	48,870	0	23,900	24,970	24,970
Early Retirement	105,000	30,000	30,000	105,000	37,500
Total	\$ 2,693,870	30,000	158,900	2,564,970	172,470

Notes Payable

On September 2, 2005, the District borrowed \$48,870 to be used to partially finance the purchase of a new school bus. Repayment of the notes will be made from the Physical Plant and Equipment Levy Fund. Details of the District's notes payable indebtedness are as follows:

Year Ending June 30,	Notes payable dated September 2, 2005		
	Principal	Interest	Total
2008	\$ 24,970	1,123	26,093

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonds indebtedness are as follows:

Year Ending June 30,	Bond issue dated May 1, 2003				
	Interest Rates	Principal	Interest	Total	
2008	3.25	% \$ 110,000	96,890	206,890	
2009	3.25	115,000	93,315	208,315	
2010	3.50	120,000	89,577	209,577	
2011	3.50	125,000	85,378	210,378	
2012	4.00	130,000	81,002	211,002	
2013	4.00	135,000	75,803	210,803	
2014	4.00	140,000	70,402	210,402	
2015	4.00	145,000	64,803	209,803	
2016	4.00	150,000	59,002	209,002	
2017	4.00	160,000	53,003	213,003	
2018	4.00	165,000	46,602	211,602	
2019	4.10	170,000	40,003	210,003	
2020	4.20	180,000	33,032	213,032	
2021	4.30	190,000	25,473	215,473	
2022	4.30	195,000	17,302	212,302	
2023	4.35	205,000	8,918	213,918	
Total		\$ 2,435,000	940,505	3,375,505	

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$161,765, \$157,154, and \$153,917 respectively, equal to the required contributions for each year.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$191,995 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2007, disbursements in the instruction and support services functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

LISBON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,583,449	635,073	3,218,522	3,091,344	3,091,344	127,178
State sources	2,935,605	2,973	2,938,578	2,925,597	2,925,597	12,981
Federal sources	88,893	87,261	176,154	130,400	130,400	45,754
Total revenues	5,607,947	725,307	6,333,254	6,147,341	6,147,341	185,913
Expenditures:						
Instruction	3,491,184	0	3,491,184	3,392,863	3,392,863	(98,321)
Support services	1,602,852	0	1,602,852	1,586,480	1,586,480	(16,372)
Non-instructional programs	0	650,384	650,384	727,000	727,000	76,616
Other expenditures	563,933	0	563,933	627,492	627,492	63,559
Total expenditures	5,657,969	650,384	6,308,353	6,333,835	6,333,835	25,482
Excess(deficiency) of revenues over(under) expenditures	(50,022)	74,923	24,901	(186,494)	(186,494)	211,395
Balance beginning of year	682,507	20,318	702,825	648,234	648,234	54,591
Balance end of year	\$ 632,485	95,241	727,726	461,740	461,740	265,986

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LISBON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the instruction and support services functions exceeded budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

LISBON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	Special Revenue Funds						
	Manage- ment Levy	Student Activity	Physical Plant & Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 87,801	46,390	42,442	176,633	203,279	707	380,619
Receivables:							
Property tax:							
Current year delinquent	1,162	0	1,206	2,368	0	2,434	4,802
Succeeding year	130,000	0	102,886	232,886	0	207,290	440,176
Accounts	0	1,281	0	1,281	0	0	1,281
Due from other funds	0	0	1,500	1,500	4,930	0	6,430
Due from other governments	0	0	0	0	27,393	0	27,393
TOTAL ASSETS	\$ 218,963	47,671	148,034	414,668	235,602	210,431	860,701
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 249	3,063	10,224	13,536	0	0	13,536
Deferred revenue:							
Succeeding year property tax	130,000	0	102,886	232,886	0	207,290	440,176
TOTAL LIABILITIES	130,249	3,063	113,110	246,422	0	207,290	453,712
UNRESERVED FUND BALANCES	88,714	44,608	34,924	168,246	235,602	3,141	406,989
TOTAL LIABILITIES AND FUND BALANCES	\$ 218,963	47,671	148,034	414,668	235,602	210,431	860,701

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LISBON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant & Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 100,127	0	102,128	202,255	74,365	206,067	482,687
Other	7,199	86,525	14,849	108,573	7,425	1,215	117,213
TOTAL REVENUES	107,326	86,525	116,977	310,828	81,790	207,282	599,900
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	15,000	0	0	15,000	0	0	15,000
Other instruction	0	106,758	0	106,758	0	0	106,758
Support services:							
Administration services	43,781	0	0	43,781	0	0	43,781
Operation and maintenance of plant services	28,859	0	0	28,859	0	0	28,859
Transportation services	6,046	0	0	6,046	0	0	6,046
Other expenditures:							
Facilities acquisition	0	0	140,142	140,142	0	0	140,142
Long-term debt:				0			
Principal	0	0	0	0	0	128,900	128,900
Interest and fiscal charges	0	0	0	0	0	102,896	102,896
TOTAL EXPENDITURES	93,686	106,758	140,142	340,586	0	231,796	572,382
Excess(deficiency) of revenues over (under) expenditures	13,640	(20,233)	(23,165)	(29,758)	81,790	(24,514)	27,518
Other financing sources:							
Transfer in	0	0	0	0	0	26,093	26,093
Transfer out	0	0	(26,093)	(26,093)	0	0	(26,093)
Total other financing sources	0	0	(26,093)	(26,093)	0	26,093	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	13,640	(20,233)	(49,258)	(55,851)	81,790	1,579	27,518
Fund balance beginning of year	75,074	64,841	84,182	224,097	153,812	1,562	379,471
Fund balance end of year	\$ 88,714	44,608	34,924	168,246	235,602	3,141	406,989

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LISBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Miscellaneous Accounts				
Peer Counselors	\$ 1,032	0	0	1,032
Special Account	861	3,535	2,475	1,921
Recycling	62	0	0	62
Elementary Picture Fund	0	512	89	423
Junior High Accounts				
Boy's Basketball	0	566	566	0
Boy's Football	0	663	663	0
Boy's Baseball	0	846	846	0
Boy's Wrestling	0	50	50	0
Girl's Basketball	0	557	557	0
Girl's Volleyball	0	785	785	0
Girl's Softball	0	514	514	0
Girl's Track	0	80	80	0
Student Council	5,767	14,113	19,880	0
High School Accounts				
Cheerleaders	3,298	5,038	6,119	2,217
Boy's Basketball	8,612	0	1,980	6,632
Boy's Football	14,967	0	9,943	5,024
Boy's Baseball	0	5,335	5,335	0
Boy's Track	0	537	495	42
Boy's Golf	0	200	200	0
Boy's Wrestling	2,471	957	3,428	0
Gate Account	0	6,000	2,903	3,097
Girl's Basketball	7,441	86	1,605	5,922
Girl's Volleyball	3,804	1,058	2,119	2,743
Girl's Softball	0	5,147	5,147	0
Girl's Track	0	120	120	0
Girl's Golf	0	300	300	0
Athletics	9,963	9,997	14,454	5,506
Picture Fund	0	512	0	512
National Honor Socitey	(91)	361	270	0
Speech	(1,096)	1,998	902	0
Annual	(220)	8,599	8,379	0
Student Council	682	2,197	2,416	463
SADD	438	0	0	438
Prom	0	5,016	3,363	1,653
Class of 2004	599	0	599	0
Class of 2005	134	0	134	0
Senior Account	1,128	1,361	2,489	0
Ski Trip	262	1,172	1,034	400
Spanish Club	4,727	8,313	6,519	6,521
Total	\$ 64,841	86,525	106,758	44,608

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LISBON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 24,342	124,303	108,403	40,242
LIABILITIES				
Accounts payable	0	4,699	0	4,699
Due to other groups	24,342	35,543	24,343	35,543
TOTAL LIABILITIES	\$ 24,342	40,242	24,343	40,242

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LISBON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 2,013,324	2,027,871	1,727,809	1,667,356
Tuition	330,755	284,428	363,834	245,725
Other	239,370	141,164	177,524	204,924
State sources	2,935,605	2,912,899	2,671,854	2,486,211
Federal sources	88,893	104,597	314,394	931,592
Total	<u>\$ 5,607,947</u>	<u>5,470,959</u>	<u>5,255,415</u>	<u>5,535,808</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,550,944	2,420,522	2,426,716	2,289,496
Special instruction	673,032	394,806	506,763	470,526
Other instruction	267,208	319,316	233,475	203,778
Support services:				
Student services	93,398	73,875	74,412	60,311
Instructional staff services	186,819	140,236	157,538	149,933
Administration services	599,422	581,296	606,773	653,110
Operation and maintenance of plant services	578,955	536,650	531,125	452,985
Transportation services	144,258	276,250	237,485	119,240
Other expenditures:				
Facilities acquisitions	140,142	94,285	363,399	3,479,845
Long Term Debt:				
Principal	128,900	105,000	156,567	150,681
Interest	102,896	104,114	110,410	116,405
AEA flow-through	191,995	186,036	171,760	168,244
Total	<u>\$ 5,657,969</u>	<u>5,232,386</u>	<u>5,576,423</u>	<u>8,314,554</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Lisbon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lisbon Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 10, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lisbon Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lisbon Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lisbon Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lisbon Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Lisbon Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lisbon Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lisbon Community School District's internal control.

Members American Institute & Iowa Society of Certified Public Accountants

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lisbon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lisbon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Lisbon Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lisbon Community School District and other parties to whom Lisbon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lisbon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2008

LISBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits, bank reconciliations, posting of cash receipts to the cash receipts journal, and payroll and payroll records are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District will review the policy and structure for possible adjustments in duties.

Conclusion - Response accepted.

- I-B-07 Rents - We noted during our audit that the District was receipting all money for use of facilities when hosting district and regional events into the Activity Fund. We also noted that the District was receipting rent for a house owned by the District in the Physical Plant and Equipment Levy Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The District should receipt all rents in the General Fund.

Response - In the future, the District will receipt rents into the General Fund.

Conclusion - Response accepted.

- I-C-07 Student Activity Fund - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

More specifically, the Student Activity Fund includes a Elementary Picture Fund and High School Picture Fund accounts. Revenues in these accounts are a result of Lifetouch Picture commissions. Commissions should be recorded in the General Fund.

The Student Activity Fund includes a Gate Account. This account appears to contain revenues from the gates for events the District sponsors during the year. The revenues should be placed in the individual activity fund account that generated the revenue.

The Special Activity account is an interest account in the Student Activity Fund. Moneys in this account should be allocated amongst the individual activity fund accounts that earned the interest. Allocation of interest should be done at least annually.

Response - Commissions will be recorded in the General Fund as miscellaneous revenue and the Picture funds will be closed.

Revenues from gate events will be placed in the individual Activity fund account that generated the revenue.

Allocation of Activity Fund interest will take place on an annual basis.

Conclusion - Response accepted.

- I-D-07 Daycare Fund - The Daycare is not currently using the District's established purchase order system. As a result, invoices for products are received and must be tracked down to determine if appropriate. In addition, individuals are paying for items personally and then seeking subsequent reimbursement.

Recommendation - The District's purchase order system should be utilized so that goods received by the Daycare are properly approved. This practice will reduce the need for the District to reimburse employees for goods they have purchased from personal funds. When employees purchase goods for the District with personal funds, they are charged sales tax which the District would not be charged if proper purchase order procedures were followed.

Response - The District will review the ordering policy and structure of the daycare to ensure that purchases are properly approved and that sales tax is not being charged or reimbursed.

Conclusion - Response accepted.

- I-E-07 Gate Admissions - Pre-numbered tickets are not being used for all performances and athletic events held on District grounds.

Recommendation - The District should adopt a Board policy addressing internal control procedures for handling cash for all performances and athletic events. The policy, at a minimum, should include the following:

- a. Change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in ticket sales/cash collecting process. The individuals responsible for ticket sales/cash collecting during the event should be instructed not to leave the change box unattended under any circumstances.

- d. Upon completion of the event, cash should be reconciled by two or more individuals to the number of pre-numbered tickets sold during the event and the amount of beginning cash in the change box.
- e. To reconcile, the next unsold ticket minus the beginning ticket number determines the actual number of tickets sold. The number of tickets sold times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any, should be small.
- f. A reconciliation sheet should be completed and signed off on by all individuals responsible for counting and reconciling cash.
- g. The change box should be turned into the Activity Director or designee responsible for the accounting function at the event.
- h. The Activity Director or designee should be required to night deposit at the bank or lock the event proceeds in the District's vault until deposit the following day.
- i. A pre-numbered receipt should be written by an individual in the Business Office the next day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically test or review the gate admissions process to ensure that the adopted procedures are being followed properly.
- k. Segregation of duties should be maintained as much as possible throughout the gate admissions process.

Response - Pre-numbered tickets will be used for all events held on District grounds. Change boxes will be reconciled by two or more individuals. Funds will be night deposited by the Activity Director or designated administrator.

Conclusion - Response accepted.

- I-F-07 Agency Fund - During our audit we noted the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the District serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or a parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District places certain assets into the custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund".

The District appears to be improperly accounting for activity funds as agency accounts. We noted gate receipts from District sporting events, as well as, concessions from these events being placed into the Agency Fund with names of certain sporting events that correspond to individual Activity Fund accounts. Since the moneys from these activities are in fact the District's money, the money being placed in the Agency Fund inappropriate.

The Agency Fund is not an appropriate fund to pay District construction projects or expenditures that would be more appropriately handled from other funds. Buying of sports uniforms and related sporting items are not appropriate from the Agency Fund unless the moneys are supplied by a parent-teacher organization or outside booster club which has its own Federal Identification Number and the District is acting as the custodial of those funds. As previously noted, District funds should not be reported in the Agency Fund.

Recommendation - The purpose of the Agency Fund is to account for financial transactions the District makes as a custodial agent according to Chapter 9 of the LEA Administrative Manual. The District should close the accounts in the Agency Fund where District moneys are being placed and put the funds in the appropriate individual Activity Fund accounts from which these moneys would be appropriately receipted and expended from. The District should refrain from reporting District assets in the Agency Fund.

Response - Agency Fund accounts will be closed and monies will be placed in the appropriate Activity Fund accounts or the General Fund.

Conclusion - Response accepted.

LISBON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget - During the year ended June 30, 2007, expenditures in the instruction and support services functions exceeded the amounts budgeted.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Accrued amounts will be closely monitored in order to accurately estimate final budget figures and necessary amendments.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

However, during our audit, we noted the District reimburses for field trip expenses and meals without receiving proper receipt documentation from employees who were seeking reimbursement.

Recommendation - If meal expenses are being reimbursed, employees are required to supply detailed meal receipts for District records according to the District's payment of goods and services policy.

The District should review procedures and board policies to ensure supporting documentation for reimbursable expenses on field trips is being supplied for the District's records.

Response - The District will expect detailed meal receipts to be provided by employees seeking reimbursement.

Conclusion - Response accepted.

II-D-07 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Eric Krob, Board Member Owns Hawkeye Flooring	Repairs	\$228
Scott Morningstar, Board Member Owns Lisbon Insurance Agency	Insurance services	\$60,894

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Krob do not appear to represent a conflict of interest.

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Morningstar appear to represent a conflict of interest.

Recommendation - The District should contact its legal counsel in regards to related party transactions with Mr. Morningstar.

Response - The District's legal counsel, Sue Seitz, has responded to the transactions with Mr. Morningstar. According to Ms. Seitz, "while the premium was greater than \$2,500, Mr. Morningstar did not receive commissions in excess of \$2,500. Iowa Code 279.7A allows Board Members to receive a benefit of up to \$2,500 per fiscal year. It is our opinion that the District did not violate this limitation."

Furthermore, the District feels this is not a problem due to the fact that Mr. Morningstar is no longer a Board Member.

Conclusion - Response acknowledged. We are unable to determine the actual commission Mr. Morningstar received to determine the actual derived benefit; however, we acknowledge that Mr. Morningstar is no longer a board member.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuitioned out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The Department of Education was contacted and the information corrected.

Conclusion - Response accepted.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.